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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 001983

SIPDIS

DEPT PLEASE PASS TO E, EB, SA/INS, SA/RA, USAID FOR
BERNADETTE BUNDY - ANE/SA, USTR FOR AUSTR WILLS; TREASURY
FOR SRI LANKA DESK, NSC FOR ELIZABETH MILLARD; COMMERCE FOR
ARIADNE BENAISSA

E.O. 12958: DECL: 11/17/13

TAGS: [ECON](#) [PGOV](#) [PREL](#) [CE](#) [ECONOMICS](#)

SUBJECT: ECONOMIC IMPACT DEEPENS AS POLITICAL UNCERTAINTY
CONTINUES

REF: A) Colombo 1957 B)Colombo 1902 C) Colombo 1916 D)
Colombo 1917 E)Colombo 1918 F) Colombo 1926 G) Colombo 1927
H) Colombo 1930

1. (U) Classified by Ambassador Jeffrey J. Lunstead,
Reasons 1.5 b, d and e.

2. (C) Summary and Introduction: Though businesses are
operating on peaceful streets, and both parties to the
current dispute have stated the peace process will
continue, uncertainty is taking an increasing toll on the
Sri Lankan economy. Planned investment, imminent
purchases, stock market growth, IFI disbursements and
business relationships have all suffered delays in this
unpredictable environment. The longer the uncertainty
continues, the harder it will be to recover lost economic
ground. End Summary and Introduction.

Investment

3. (C) On November 14, Chairman of the Board of Investment,
Arjunna Mahendran, told visiting Commerce DAS Williamson
that \$150 million in five infrastructure investment
projects are now on hold as a result of current events.
Investors have not cancelled these projects, he noted, but
want to wait and see what will happen. Mahendran was
quoted in the press saying that investment depends on the
peace process and the President has raised concerns in
investors' minds. Mahendran himself took an extreme
position during the interview, referring to the
"probability of the resumption of war", a view we do not
believe is shared by the majority of Sri Lankans.

Sales

4. (SBU) Though it is too soon for statistical information
on sales, imports or exports, Post has received anecdotal
evidence that business transactions have been negatively
affected. Garment buyers from Lands' End, who had just
arrived in Colombo to discuss increased purchases, were
called back to the US by the main office, based on
sensationalized reports in the media. Reportedly, Wal-Mart
representatives were not allowed by their management to
leave the US for a planned trip to Sri Lanka due to the
perception of instability and violence. A US supplier of
wind turbines told a local importer it could no longer
accept orders from Sri Lanka. Seven officials from the
Ceylon Chamber of Commerce, the premier business group in
the country, said in a meeting that each of them had at
least one or two deals held up because of the current
situation.

Stock Market

5. The Colombo Stock Exchange continues its volatility.
After rising on the Prime Minister's return from Washington
on November 7, it fell on the November 14 news that the
Norwegian mediators were putting mediation efforts on hold
until a decision was made on whether the Prime Minister or
the President would lead the peace process. Overall, the
market fell just over 10%, week on week. Interestingly,
there was a net foreign inflow, and foreign participation
increased to 28%.

Business groups

6. Members of the business community seem unanimous in
their desire for a quick resolution, without elections.
Business groups have requested meetings with the President
and Prime Minister and hope to deliver four key messages.
The messages are: this dispute is damaging to specific
business relationships as well as to the country's
international reputation; it has the potential to undo all
the progress that has been accomplished in the past 20
months; the parties should work it out without resorting to
elections; and, unpredictability is the enemy of
investment. At the Ceylon Chamber of Commerce, officials
also noted that next year's budget, which has been delayed
by Parliament's suspension, contained measures reflecting a
peace dividend, made possible by the government's fiscal

discipline of the past two years.

International Financial Institutions

17. In addition to IMF delays (ref A), the ADB reportedly considered delaying a \$50 million loan tranche due for release on November 20. It appears that tranche will move forward as planned, so long as Parliament is reopened on November 19.

Comment

18. (C) Our consistent message to the President and the PM is that capital is a coward and the economy will suffer as long as uncertainty prevails. It seems clear the President and her advisors had no intention of rocking the economic boat with their actions, hence the numerous "clarifications" and denials in the last few days. Hopefully, they now realize the longer it takes to resolve the current impasse, the more economic damage is done. End comment.

LUNSTEAD